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The Nabucco Project and Communicating about Energy Security

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Abstract: Energy Security was considered by many of the Eastern European countries a priority in their fight for breaking the ties with the former Soviet Union. The dependence of the Eastern European countries to the Russian gas and petroleum generated for most of the local governments a feeling of inferiority that they were willing to replace if the opportunity will be offered. One of the main alternative projects to the Russian gas is the Nabucco Project designed to enable the access to Caspian gas for all the European countries. Knowing that a decision on the realization of the pipeline should be made by the end of June 2013, our article will try to illustrate the importance of the Nabucco Project for the regional and European energy security by studying the history of the project, the competing projects and the recent political evolutions of the project. This will enable researchers, decision makers and policy makers in the energy sector to better evaluate the Nabucco project and better act into promoting it.

Keywords: energy security; Nabucco Project; Eastern Europe; security policies; foreign policies

1 Introduction

The problem of energy security and the multiplication of gas sources are considered a topic of high importance on the European energy and foreign policy agenda. Even know many European countries enjoy preferential treatment from Russia regarding the gas prices, not all the countries are happy to be dependent on this energy source, especially the Eastern European countries and Romania.

In this sense, several European countries developed gas pipeline projects in order to connect and multiply the gas sources. One of the world's richest gas regions interesting for the European consumer markets are the Caspian region and Middle East. Nevertheless till now, despite the European interests, there aren't any direct pipelines capable of bringing that gas to Europe. Therefore several EU member countries decided to develop their own projects in order to access this insufficiently used resource.

One of the projects resulted from this decisions is the Nabucco Project, a gas pipeline that should pass via Turkey, Bulgaria, Romania and Hungary to

Baumgarten in Austria. Considered a project of national interest for all the European member countries, the project encountered several turning points generated either by the slowness of the decision making process or by the influence of other international and national interests.

Despite the series of events occurred, the Nabucco Project is today more actual than ever. By the end of June 2013, an international consortium that controls the Azeri gas resources from the Shah Deniz region will decide on the pipeline they will use to deliver their gas to Europe. This decision will lead to the realization or the end of the Nabucco Project.

Our article will try to present the Nabucco Project from a security energy perspective by firstly concentrating on the history of the project. Secondly we will evaluate the other competing projects in relation with the Nabucco Project. Finally we will evaluate and analyze the current situation of the project and the steps that have and should be done in order to implement this project.

2 History of the Nabucco Project

The idea of the Nabucco Project appeared at the beginning of 2002 as a result of several commercial contacts between Austrian OMV, Turkish BOTAŞ, Hungarian MOL Group, Bulgarian Bulgargaz and Romanian Transgaz. A protocol was signed that year for the construction of the Nabucco pipeline, which has its name from a famous opera of Giuseppe Verdi that the five partners listened at the Vienna State Opera after the meeting.

In 2003, the project enjoyed a European Commission grant designed to cover half of the feasibility study of the project. The new studies lead to the creation on 28 of June 2005 of a joint venture called Nabucco International Consortium. Soon the project enjoyed a strong support from the national government but also from the European commission that nominated a special project coordinator. In 2008, the German RWE became a shareholder of the consortium. The same year, Azerbaijan declared that they are planning to at least double their gas production in the next years and deliver gas to Europe.

In the years that followed the Nabucco International Consortium and the member countries and companies worked on raising the awareness and the profile of the project with different agreements destined to attract the interests of the international investors. An intergovernmental agreement was signed by the member countries in order to institutionally prepare the project.

Independently of the Nabucco Project, Turkey decided to build on its own the TANAP Pipeline reducing the length of the project to the EU member countries. The new project, called Nabucco-West, should therefore link the Bulgaria,

Romania, Hungary and Austria to TANAP. In May 2012, the Nabucco International Consortium submitted a proposal to the consortium that controlled the Azeri gas from the Shah Deniz region. As a result, at the beginning of 2013, NIC signed a funding agreement with the Shah Deniz partners according to which the last could buy 50% of the project if they chose Nabucco as an export route for the gas. The Shah Deniz should chose by 30 of June 2013 the European export route. If built, Nabucco-West is expected to be operational by 2017. The Nabucco-West pipeline will be around 1300 km long and will be scalable between 10-23 bcm. In Romania the pipeline will have 469 kilometres, and will go from south-west to north-west, starting from the Danube-crossing point upstream of the Port of Bechet. The problem of the pipeline in Romania is that it will cross 11 protected sites, two national parks, three natural reserves and 57 watercourses.

The construction of the all Nabucco-West pipeline should last four years. The Nabucco project is included in the EU Trans-European Energy Network program. The front end engineering and design services are managed by the UK-based consultancy company, Penspen, and WorleyParsons, from Australia, was appointed as on owner's engineer.

Estimated initially at 7 billion euro, the pipeline is estimated to cost 12-15 billion euro. The project is going to be finance by the partners and the rest should come from commercial financial instruments as well as international financing structures like the European Investment Bank and the European Bank for Reconstruction and Development. In order to understand the importance of the Nabucco project we need to analyze the competing projects threw a SWOT framework designed to illustrate the advantages brought by each project.

3 The Competing Projects versus the Nabucco Project

The main competitor for the original Nabucco project was South Stream. In 2006, the Russian company Gazprom proposed an alternative project that would have involved the construction of a second section of the Blue Stream pipeline beneath the Black Sea to Turkey, and extending this up through Bulgaria and Serbia to Western Hungary. Finally in 2007 the South Stream changed by bringing the pipeline through Bulgaria, Serbia, Hungary and Slovenia to Austria and Italy. In 2010, the CEO of the Italian company ENI, a partner in South Stream, proposed to merge the project with Nabucco but the proposition was turned down by the Russian Minister of energy.

Nevertheless the Nabucco project turned to be more competitive than South Stream and the realization of the Turkish pipeline TANAP on the original Nabucco project in Turkey contributed into improving the strength of the project.

This nevertheless didn't put a stop to the competition. A new project called the Trans Adriatic Pipeline (TAP). TAP starts from Greece and passes through Albania and the Adriatic Sea before going to Italy and Western Europe. This project isolates the Eastern and Central European countries that are strongly supporting on European level the diversification of energy sources. TAP appeared in 2003 as a project of the Swiss energy company, Axpo, and the feasibility study finished in 2006. In 2007, the extended engineering plan was completed and this led to the creation of a joint venture with the Norwegian energy company Statoil. In 2009, an intergovernmental agreement was signed between Italy and Albania and in 2010 it opened offices in both countries and in Greece. In the same year, E.ON Ruhrgas becomes a partner in the project.

Like the Nabucco project, the TAP project has applied for a Third Party Access Exemption enabling it to enter into long term ship-or-pay gas transportation agreements with the Shah Deniz consortium. At the beginning of 2012, the TAP was the first project to be pre-selected and to enter exclusive negotiations with the SD Consortium and in August 2012 they signed a funding agreement including an option to take up to 50% equity in the project.

The TAP project is considered to be a project of common interest by the European institutions and a part of the Southern Gas Corridor. In 2013, the three partner countries signed a memorandum of understanding and an intergovernmental agreement. The project is considered to be the shortest route with 791 kilometres of which 105 kilometres in offshore. The initial capacity of the pipeline will be about 10 billion cubic meters of natural gas per year with an option to expand to 20 billion. In order to respond to the worries of the South-Eastern European countries, the project plans to develop an underground natural gas storage facility in Albania for the region.

If we compare the TAP project with the Nabucco project we notice advantages and weak points for both projects. In order to better see the differences we decided to build a comparing table constructed on the SWOT framework.

Table 1. Comparison between the TAP and the Nabucco project

| | TAP Project | Nabucco Project |
|---------------|---|---|
| Strong points | <ul style="list-style-type: none"> - the length and cost of the project 791 km for TAP compared to 1300 km for Nabucco. 1.5 billions euro for TAP against 12-15 billion euro for Nabucco. - the shareholders Statoil which owns 42.5% of the TAP projects owns 25.5% of the | <ul style="list-style-type: none"> - four EU member countries involved In the Nabucco project, there are four countries involved Romania, Bulgaria, Hungary and Austria whereas in the TAP project we have a non-EU member, Albania. - the gas consumption of the |

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| | <p>Shah Deniz Consortium</p> <p>- a short advance the TAP was the first project to be pre-selected and to enter exclusive negotiations with the SD Consortium and in august 2012 they signed a funding agreement including an option to take up to 50% equity in the project</p> | <p>project partners</p> <p>The existence of four countries with high gas consumption may contribute to proposing a higher level of gas bought by the project members.</p> |
| Weak points | <p>- the gas consumption of the project partners Italy, Greece and Albania have a lower level of gas consumption than the Nabucco partners</p> | <p>- the length and costs of the project 1300 km compare to 791 km. 12-15 billion euro for Nabucco against 1.5 billion euro for TAP</p> |
| Opportunities | <p>- the fact that the TAP project has only three countries involved, with a strong leader, Italy, may help the elaboration of the documentation necessary for convincing the Shah Deniz Consortium</p> | <p>- the project started in 2002 and this may give an advantage opportunity in the preparation of the documentation and the solidity of the project against the TAP that was created in 2006</p> <p>- the fact that the TAP project has a non-EU member, Albania, with potential political problems, and Greece, with strong economic problems</p> |
| Threats | <p>- the fact that the TAP project has a non-EU member, Albania, with potential political problems, and Greece, with strong economic problems</p> | <p>- the number of countries involved may generate a difficulty in organizing and elaborating in time all the documentation necessary for convincing the Shah Deniz Consortium</p> <p>- the shareholders Statoil which owns 42.5% of the TAP projects owns 25.5% of the Shah Deniz Consortium</p> |

The comparison of the two project show that the TAP Project seems to have a short advance in front of the Nabucco project. The main advantage of the Nabucco project is based on the number of countries that can benefit directly or indirectly from the realization of the project. In the Nabucco project more EU states are actually crossed (AT, HU, RO, BG) and there are positive impacts on other

countries like SK, HR, FYROM, SB, DE, CZ or IT. NIC also has significant EU shareholders, BG, RO, HU and AT state companies controlling 50% of the future joint venture, as opposed to TAP, that is held by a Norwegian company, Statoil, and a Swiss company, AXPO, each with 42.5%.

In order to use these advantages and the opportunities available, the Nabucco member countries and Romania should act more into promoting their project. In the next chapter we will try to analyze the current situation and propose several methods of action.

4 The Current Situation of the Nabucco Project

The debate on the creation of new gas pipelines was accelerated by the Russia-Ukraine gas disputes that generated important consumption problems for many European countries, especially in Central and Eastern Europe. This enforced the requests of the countries from this region to diversify the gas sources. Moreover, the evaluations of the European Commission show that gas consumption is expected to increase from 502 cubic meters to 815 billion cub meters in 2030, a demand that can't be met by Russia alone.

Today, the Nabucco project and partners are waiting for the decision of the Shah Deniz Consortium regarding the pipeline chosen to transport the Azeri gas. A decision between Nabucco and TAP should be made by 30 of June 2013.

The Shah Deniz partners asked from both competing projects to give them an option to take up to 50% equity in the project. They also asked the two pipelines to organize and realize documentation capable of proving the support given by the member countries and the preparation of all the necessary authorizations to build the pipeline. An important documentation is the Environmental Impact Assessment because of the problems that it may generate in the construction of the pipeline. Thirdly the SD partners are evaluating the gas prices proposed by each consortium and the quantity of gas estimated to be bought by the transition countries. Negotiations are taking place currently to establish the final figures.

In order to win the competition, the Nabucco-West project should do all the necessary work into taking advantages of its strengths. One of the main strong points for this project is the energy security dimension. By offering access to other sources of gas, especially for the Central and Eastern European countries, it enables these countries to be less dependent on Russia. The limitation of this dependence actually strengthens the European Union and the EU member countries as international actors. This increases flexibility and safeguards against fluctuations in energy supply.

Moreover by interconnecting with the European pipelines at Baumgarten in Austria, the Nabucco project offers a lot of commercial opportunities for the Azeri gas into Western Europe, to Germany, Czech Republic, Italy or France. With the expansion of the existing infrastructure, Nabucco could also connect to the entire SEE area.

In the same time, the fact that the Nabucco project was initiated in 2002 gives it a short advantage in terms of legal documentation. Thanks to an Intergovernmental Agreement between Turkey, Bulgaria, Romania, Hungary and Austria it has a legal and regulatory framework. The treaty was ratified by all five countries. But the most important factor of this framework is that it gives a 50 years transit right in all these countries. Nabucco is also the only project that has obtained a 50% exemption from the European Third Party Access requirements and has completed a Project Support Agreement. All these factors make Nabucco the best option to open the Southern Gas Corridor and make it commercially and financially attractive as well as low-risk for investors.

Beside these elements, Romania is in the middle of this international project, being a declared, open and strong support of the Nabucco project. This makes our country's voice very important in the promotion of this project and it generates a need of a strong and well organized international position on this topic.

Romania has all the interest in the realization of the Nabucco project. First of all, this will enable it to become an important actor in the European gas distribution network generating economic as well as political and strategic advantages. The negotiation power of Ukraine in the gas controversy with Russia can be an example.

Secondly the Nabucco network enables Transgaz Romania and Romgaz to develop as companies and to foresee a future in the perspective of reduction of the gas production and gas capacity of Romania. These soon to be privatized companies have to learn how to act on a market on which they don't have a total control anymore.

Even if a common understanding will be soon signed regarding the taxes imposed to the project, the Nabucco project will generate important financial benefits to Romania at least through the Nabucco Romania Company. Romania will be able to tax the transport only after 25 years.

Finally, the alternative projects like SouthStream or TAP exclude Romania from the access to alternative gas resources at low price in the context of the reduction of the national resources. This generates a political and economical problem from Romania that will raise its dependence on the Russian gas and will be less competitive for the heavy industry.

In order to prove its support for the Nabucco project, Romania has adopted in February 2013 a law in the Romanian Senate that reaffirms the support for the Nabucco project and ratifies the agreement signed by the Nabucco consortium since June 2011. Moreover, Romania is planning to implement a special Nabucco Law designed to regulate the entire institutional and legal framework necessary for the realization of the pipeline on Romanian soil.

At this moment Nabucco is facing four important problems and difficulties that have to be analyzed to understand the current situation of the project. The first problem is the access to gas sources. The Nabucco project has been conceived at the beginning to transport the gas from Iraq, Egypt, Kazakhstan, Turkmenistan and Azerbaijan. Iraq has decided to limit the transportation of gas to the existing pipelines till they will be able explore and find other gas sources. Egypt is prepared to transport its gas through Nabucco but its capacity is insufficient for the financial needs of the pipeline. Turkmenistan is also prepared to transport a part of its gas but the political situation of the country does not allow it to develop more this partnership. Kazakhstan is waiting for the pipeline to be realized before planning to transport the gas through it. In the end the only source of gas available is the Azeri gas from the Shah Deniz region. This high dependence on the decision of the consortium actually makes possible or impossible the Nabucco project.

The second problem is that of the competing projects and mainly the TAP project. This project is shorter, involves fewer countries and three strong energy companies, and has a shareholder in the Shah Deniz Consortium. The problem of the Nabucco project is to prove that it is the only European supported project being the only one with only EU member countries partners. Nabucco has also to prove that it is the best energy security project for Europe in general, and for the Central and Eastern European countries especially.

The third problem is that of the liquefied petroleum gas. Different studies have shown that there are important resources of LPG in Romania, Bulgaria and Greece that can represent an alternative solution to the Caspian gas. This is used by the opponents of the Nabucco project in order to diminish the importance of this project and to accuse a potential low involvement in Nabucco of Romania and Bulgaria. These accusations are accentuated by the existence of an alternative LPG project between Azerbaijan, Georgia, Romania and Hungary. Romania has to prove that these projects aren't in a direct competition that it still supports politically and economically the Nabucco project.

Finally, the fourth problem is that of the financing of the project. With costs estimated at 12-15 billion euro the Nabucco project is a lot more expensive than the TAP project, with 1.5 billion euro. The funds necessary for building the pipeline have to be supported by the partners of the project and commercial and international aid has to be attracted in order to assure the finances for the project.

Nabucco has to increase the initial contacts with the European Investment Bank and the European Bank for Development and Reconstruction. Knowing that all the project suppose a return on investment for the partners, they have to show to the Shah Deniz consortium that they will manage to have large profits even with this construction costs. A solution for the Nabucco partner countries and companies is to propose and assume the direct acquisition of large quantities of gas in the future at competitive costs for all the parties involved. In the Romanian case, Romgaz is the company that is negotiating the future Romanian gas acquisitions and it should be pushed to bid more in order to help the realization of the Nabucco project.

These four problems actually lead to three other questions of debate regarding Romania's implication in the Nabucco project. Firstly is to evaluate the financial opportunity for Romania to get involved in the Nabucco project. Beside the energy security advantages, is the Nabucco project bringing to Romania cheaper gas. Moreover are Transgaz and Romgaz capable of supporting financially the project and what is Romanian going to do in the case of the privatization of the two companies.

Secondly, is the Nabucco project still a regional political and government supported project? The withdrawals of the German RWE company and the reduction of the implication of the Hungarian MOL are reasons from Romania to believe that the Nabucco is facing important political problems? Romania should evaluate the new political context and push for an open political support for the project from all the countries implicated. A solution may be to elaborate a common international campaign to support the project.

This leads to the third question, or more exactly the political interests of the Shah Deniz shareholders. First of all the Azeri company, SOCAR, only owns 10% of the company. Even if the weight of the company is not very important, the Azeri government has an important saying in determining the winner of the competition between the Nabucco and the TAP pipeline. This leads us to identifying the main Azeri political and economic interests. Firstly this country tries to consolidate its political and economic interests in the European Union. They want to improve their relations with the EU, they see a European future for the country and they desire to have access to the European market. Secondly, Azerbaijan has political and diplomatic tensions with Armenia and the separatist region of Nagorno-Karabakh. While the Azeris have been supported by Turkey in this matter, Azerbaijan was criticized by the EU regarding this diplomatic and political situation.

The other shareholders of the Shah Deniz consortium are British Petroleum (25.5%), a British multinational company, forth company in the world, Statoil (25.5%), the Norwegian state owned company partner in the TAP project, TOTAL SA (10%), a strong French multinational company, LukAgip (10%), formed from the Italian ENI and Russian Lukoil partners in SouthStream, NIOC (10%), the

Iranian national gas company refused by the Nabucco project and TPAO (9%), a Turkish national company partner in SouthStream.

The evaluation of these shareholders shows that without a strong implication from the Nabucco partners, it will be very hard to generate a positive result. The first objective of the Nabucco member countries is to push for an economical decision from the Shah Deniz Consortium in order to increase the influence of British Petroleum and Total SA and reduce the influence of Statoil that should be pushed into reflecting on the opportunities offered by the Nabucco project. Once this objective has been reached the Nabucco partners should build a strong international political campaign to support the project in Norway, to convince Statoil, and in Azerbaijan, for a political implication of the Azeri government.

5 Conclusion

The European energy security is considered to be a key topic in Europe. Nevertheless from the public discourse to real political action a long way still has to be done. The case of the Nabucco project shows the low implication of the European Union in a decision that can influence the future of many Europeans and achieve energy sufficiency and diversity for Europe. Even if the project truly reflects the idea of a common European public interest, the EU has decided to avoid deciding between Nabucco and the TAP project. The Nabucco member countries have to understand that the implications of this project are larger than that of an economic and financial decision. This can lead to gas independence from the Russian gas for Central and Eastern European countries but also for Europe in general. Russia's influence in Europe will have a blow that will most certainly not be accepted so easily by a country that is used in having the control over the European natural resources. Romania's role in this project is one of great importance. The country has publicly assumed the role of leader of this project but hasn't made the steps necessary in actually leading the international campaign for the Nabucco project. Romania has to quickly act in this direction that will make Romania a regional energy connector and power.

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